AGRICULTURAL COMPETITIVENESS: MARKET FORCES AND POLICY CHOICE

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DISCUSSION REPORT SECTION I

R.W.M. Johnson (New Zealand)[1]

I thank the authors (Petit and Gnaegy, and Spencer and Badiane) for their plenary papers. They add to our understanding of the relationship between competitiveness, trade and development. They come at an opportune time for world trade development. Current changes will see a realignment of the competitive positions of individual countries as barriers to trade are removed and new opportunities open up. Developing countries, especially in Africa, will be looking for opportunities for economic growth.

It is 37 years since I first came to Zimbabwe. My concerns at that time were the microeconomics of smallholder agriculture. I am sure Michel Petit remembers me talking about this at the 1967 conference. In more recent years, as a government officer, my concerns have been more aligned with trade, the environment and macroeconomics. One paper derives from this latter area and it is towards current macro problems that I first turn.

I find Petit and Gnaegy's definition of competitiveness useful, particularly with its emphasis on reinvestment. Use of Ul Haque's classification of factors affecting competitiveness is also useful with emphasis on developing technology, innovation and post-harvesting issues. I endorse the emphasis on a suitable macroeconomic environment, for without it the other factors cannot come into play. The authors next stress the influence of cultural and societal beliefs on government decision making. They mention attitudes towards change and risk, the concept of institutional guarantees, institutional relationships, property rights and the role of the state. The authors stress that global competitiveness causes very different societies, with different attitudes, to come up directly against each other, thereby bringing great pressures to bear on business and labour to act at variance with their own beliefs.

I believe the writings of D.C. North (often quoted in this volume) are relevant to this particular view. North stresses an institutional view of international trade where expanding trade between countries is associated with rising transaction costs, more unified political systems and greater agreement on the rules for the conduct of trade. This expansion will be accompanied by the greater use of formal contracts, bonding of participants, use of guarantees, use of brand names, development of monitoring systems and effective enforcement mechanisms. Although the resources devoted to such transactions are high, the productivity gains are even higher! The triumph of the recent GATT negotiation is not only the prospect of greater quantities of trade between all nations but also the reaching of a global agreement on the future conduct of

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trade, thus enabling countries to see, literally, where their possible advantages lie.

The authors' review of world trade trends and prospects is very informative. A process of rapid change is taking place already as the result of geopolitical developments which will now be enhanced by the GATT negotiation. Perhaps if the authors could have spent a little more time in identifying those who will not benefit from the possible expansion of trade we would be better informed. It must be agreed that there are serious problems in this particular continent that still need to be addressed. I return to this topic later.

The authors have concentrated on the outcome of the GATT Round, the actions of the more developed agricultural exporters, the potential for increased bilateral or regional trading agreements and the transformation process taking place in the emerging market economies. As they state, this does neglect the role of the environment movement on protectionist policies regarding agriculture and the role of institutions. Another important factor is surely the raising of technical barriers to trade, whether they are connected to the environment or not.

The second paper, by Dunstan Spencer and Ousmane Badiane very properly addresses the relationship of agriculture to economic growth in countries in the humid and sub-humid tropics in Africa. The authors assert the truth that the ultimate goal of any agriculture-oriented development strategy will be to foster non-agricultural growth. They address the poor record of agricultural output in the countries with which they are concerned. They summarize the present information on the 'green revolution' and draw attention to the poor infrastructure that exists to support such changes in technology. Finally, they examine the technologies which will be needed in the next 20 years and factors affecting the uptake of technology.

What I find missing here is any concern for the social conditions under which African farmers operate. What affects the uptake of new technology? Who does the work? How are products marketed and how efficiently? These wider concerns are also part of the development equation and are missing from this discussion. President Mugabe has recently said that resettlement programmes should include the development of the necessary infrastructure such as roads, schools, clinics and housing. Resettled families should be supported by a more reliable extension service and essential inputs. Intensive instruction is needed, since the new varieties in Asia were promoted in this way.

The authors then turn to policies for growth and competitiveness in African agriculture. I agree with their assessment of the role of appropriate macroeconomic policies. Agriculture can contribute to overall growth if given the opportunity. I would like to see their views on the role of regional markets developed further, especially as far as better functioning markets can reduce the costs of distribution.

The authors conclude that, without growth in the agricultural sector, sustained economic recovery in African countries is very unlikely. I think this is a rather narrow focus as there are other sources of growth in most countries. The authors emphasize an appropriate macroeconomic and sector policy environment which restores incentives to the agricultural sector, minimizes unit costs in domestic marketing systems and ensures competitiveness of agricultural tradeables in domestic, regional and international markets. To these I would add the formation of appropriate price stabilization policies for commodities, encouragement of appropriate risk-management strategies for producers, and facilitation of greater transparency in the appropriate information systems. Without doubt, the near future may see rising and more profitable agricultural commodity markets, but also more variable and uncertain outcomes for the individuals who wish to take part. They can only respond positively with better knowledge of the risks and trends they face.

Scott Pearson (USA)[2]

Because this is the first plenary session of the conference, I wish to take some liberties in beginning my remarks. The theme of this opening day is 'competitiveness'. For a moment, I would like to discuss a special type of competitiveness, namely that between presenters of papers and discussion openers. Some of you might think that the role of a discussion opener should be complementary to, not competitive with, that of the paper presenters. But I strongly disagree with that interpretation. Competitiveness rules when professional reputations and egos are involved. I wish, therefore, to offer a brief taxonomy of modes typically used by discussion openers, as we compete with our colleagues who have prepared and presented papers. This taxonomy is based on two criteria – the geographic origin of the discussants and the degree of subtlety or bluntness with which the comments are offered.

In my taxonomy, I suggest four stereotypical discussion openers, ranging from very gracious to exceedingly blunt or sometimes even downright rude. At one extreme are the discussants from Africa. Having spent time in this remarkable continent in nearly all of the past 33 years, I am willing to venture a gross generalization: when commenting at conferences in Africa, one is never supposed to be openly critical. Discussants are expected to praise papers, not to tear them apart. Critical thoughts thus must be woven into the remarks with great subtlety or even hidden between the lines. The real debate then occurs after the formal presentations, often at the bar.

My second stereotyped discussant comes from Asia. My own personal experience in this rapidly changing continent has been limited to spending a couple of months during each of the past 15 years in Indonesia, plus attending a smattering of conferences in other countries. Hence I am on shakier ground in generalizing abut Asian discussants. But I feel reasonably confident in suggesting that discussion openers from Asia also fit into a pattern. Their comments tend to be very gracious and laudatory, but they are filled with exceedingly subtle barbs. The idea is to appear wholly positive about the papers, but to score debating points in as cleverly indirect ways as possible.

My international taxonomy next turns to discussants from Europe. My direct experience there is less extensive than in Africa and Asia, but I have been collaborating in research projects in Portugal for the past 13 years and have attended my fair share of conferences around the continent. European discussants

[2]Stanford University.

tend to be more outwardly bold than their counterparts from Asia and Africa. Typically, they begin in the same way, by praising profusely the wisdom of the papers presented. But the tone quickly shifts, about halfway through the comments. Discussion openers from Europe then proceed to criticize the papers – directly, if they are from northern Europe, or more subtly, if they hail from Mediterranean countries.

My taxonomy is completed by adding a fourth category of discussion openers – the rude ones. Discussants from North America or Australia/New Zealand generally do not like to waste time pretending to be nice to papers they disagree with. These folks tend to ignore subtleties and to open their comments with phrases like, 'How could you possibly have written this paper?' This attitude no doubt reflects a desire to get to the point quickly, but it can be very upsetting to presenters of papers. Discussants from North America or 'Down Under' also have a tendency to suggest different paper topics from those actually presented or even to give their own papers, thereby ignoring the ones on which they are meant to provide comments.

Now that I have been bold enough to offer this taxonomy, I hope that each of you will put it to an empirical test during the eight days of this conference. Please rest assured that my intention is not to attempt to alter the behaviour of any discussants as they compete with their paper presenters! Because I have taken up – I hope not wasted! – a good portion of my allotted time in presenting what I can only regard as an invaluable taxonomy, I must be brief in commenting on the two papers that have used a different definition of competitiveness. Both Michel Petit and Dunstan Spencer are long-time friends and colleagues, so I will have to be careful and thus to be totally North American in my approach here. I will offer my comments in the order of presentation, beginning with the Petit/Gnaegy paper on 'Agricultural Competitiveness and Global Trade'.

In many respects, I like this paper. Petit and Gnaegy (1) make a reasoned and strong case that developing countries should continue to improve their international competitiveness in agricultural commodities; (2) provide a useful definition of competitiveness; (3) review briefly trends and expected changes in the global trading environment; (4) summarize three examples of success in developing horticultural exports (Chile, Morocco and Kenya); and (5) discuss the appropriate role of governments in developing countries to promote agricultural competitiveness. In so doing, they provide a very useful service to our profession. Nevertheless, after finishing the paper, I could not help but feel that something was missing; that reading the paper was like attending *Hamlet* without the Prince. Why was I dissatisfied when the authors had already done so much? Gradually, the answer came to me, in two parts.

From the vantage point of an academic analyst, I was expecting that the paper would provide analysis and guidance on how and why the external environment facing agricultural producers in developing countries had changed recently and might alter in the near future. How might we expect the recently concluded GATT agreement and the prospective new World Trade Organization to influence the competitiveness of important agricultural exports and import substitutes in developing countries, especially those in Africa? To what extent might regional trading blocs and the emerging market economies affect world prices and markets for agricultural commodities that are important for developing countries? Although the prospects for horticultural production and exports are important, why largely ignore the principal food and feed commodities in most developing countries? One part of me, therefore, was hoping for a nice analytic summary of World Bank and other research on current and emerging world agricultural markets of importance to the global trade of developing countries.

I then put on another hat that I sometimes wear, that of a policy advisor on food and agricultural issues. Assuming that guise, I asked myself how the Petit and Gnaegy paper fell short of providing the help that I was seeking. Most governments with which I have worked have already jumped on the competitiveness bandwagon (though sometimes reluctantly, to be sure). What they are seeking now is guidance on how to be successful. With this in mind, I offer the following query to Michel and his co-author. Have we learned enough from the experiences of successful countries to begin to formulate strategies for governments that wish to improve their countries' international competitiveness?

The Petit and Gnaegy paper contains a very neat summary of the policy areas through which governments can assist their private agricultural sectors – infrastructure, non-taxing macro policy, trade policy, regulatory structure, education, research and development in science and technology, and information on available technologies and market conditions. But, given likely changes in the global trading environment, how should governments match their country's resources and constraints with choices from this extensive policy menu and, in particular, how can they better assess priorities and trade-offs? The policy advisor instincts in me urge us all to move beyond policy menus and into policy strategies. In fairness, however, this complicated topic probably should be dealt with in a separate paper, perhaps one that summarizes all of the sessions of this conference.

I turn now to the second paper, by Dunstan Spencer and Ousmane Badiane. This provides a stark analytic summary of the enormous challenges facing African agriculture if it is to play its much-needed role in the future development of this continent. This paper addresses the two critical components of any agricultural development strategy, namely the promotion of appropriate technology and the creation of an enabling policy environment. The authors argue convincingly that the successful interplay of these components is critical for Africa's economic future; they examine in detail the ingredients of each component, but they carefully avoid advancing any predictions about likely future outcomes.

The paper does contain a very useful summary of agricultural technology issues in Africa. Although there is little doubt that this important discussion is well-informed, this reader would have benefited from a deeper explanation of why high-yielding varieties ('MVs' in the paper's terminology) are unprofitable in so many African agricultural systems. Are government macroeconomic and price policies forcing negative profitability, whereas the systems would be profitable if valued in efficiency prices? Or are the new MV technologies inappropriate, given infrastructural constraints, so that farmers would still lose even if the distorting policies were removed?

The Spencer and Badiane paper also presents a fascinating projective analysis, which concludes that most African countries are unlikely to be able to make sufficient infrastructural investments in roads and irrigation to be able to emulate the Asian experience in adopting MVs. The authors then go on to develop a list of characteristics that will need to apply to agricultural technologies appropriate to African conditions. Central to this list are that the technologies should raise seasonal labour productivity, be 'infrastructure efficient', (that is, not require more infrastructure than is likely to be available), be sustainable and apply largely to rainfed systems. I feel that they left two important questions unanswered at this point. How feasible will it be for research institutions to meet these conditions? And will appropriate MV technology differ across African countries according to their development of transport and irrigation infrastructure?

The discussion of the policy environment, while useful, is less complete than that of technology. The authors correctly restate the need for policy reform, but they do not mention the changes that have occurred in Africa since the mid-1980s. Nor do they offer any help on what kinds of things remain to be done, economically and politically, to complete the policy reform process. How much additional policy change is needed, and to what extent might it be politically feasible? As the paper notes, this change is also needed to mitigate the effects of higher world prices on food-importing countries.

The authors note the importance of domestic agricultural marketing reforms for both local and regional production and trade. An ongoing study in Kenya, which is measuring the gains in farmer and national income from improvements in marketing efficiency, is showing that these benefits are large and can be a major source of agricultural growth. Hence it would be useful if this section were extended. It would also be helpful if the authors would clarify and integrate their policy strategy at the end of the paper. How will appropriate technology policy be complemented and validated by macro/sector/marketing reforms? Are any special policies needed to guide international trade?

As a final footnote, I hope that you have all noticed that I have attempted to offer my comments to the European authors in the European style and those to the African authors in the African mode. Hence, I look forward to later discussions in the bar with Dunstan and Ousmane, and I hope Michel and Suzanne will agree to join us there!

David A.G. Green (UK)[3]

The two papers by Traill and Da Silva and by Westgren deal with different aspects of industrial competitiveness and the authors are thanked for their valuable insights. The papers are complementary in being written at somewhat different levels of analysis; each, in its particular way, draws attention to the difficulties in interpreting 'competitiveness' since the term is used at *different* levels of analysis.

[3]University of Wales, Aberystwyth.

Traill and Da Silva usefully differentiate between industrial sector competitiveness in international trade, at which level both corporate and government policy makers focus largely on market share as the indicator of competitiveness, in contrast to the impact of competitiveness on sectoral productivity at the macro level of the national economy. Westgren distinguishes different levels of abstraction as a useful analytical means to determine an appropriate level of behavioural activity in a given context of analysis.

The first half of the paper by Traill and Da Silva consists of an interesting and wide-ranging discussion of contributory components to industrial competitiveness. These components embody major policy issues but their conclusion that their paper has not dealt with the sources of competitive advantage and therefore does not make policy prescriptions for improving competitiveness, although disappointing, is a recognition of both conceptual difficulties and the inadequacy of data for comparative analysis.

Westgren's methodology may well provide insights for the analysis of different levels of competitiveness but his approach is inter-firm and intersectoral, rather than international. International applications can, however, be envisaged.

Implicit in the exploratory part of Traill and Da Silva's paper is an apparent assumption that improving competitive advantage leads to improvements in the efficiency of resource use, thereby releasing resources to alternative, possibly more productive, uses. This neoclassical orthodoxy was critically challenged at the last International Conference in failing to take externalities into account. The relationship between competitiveness and sustainability is briefly mentioned in this paper, without drawing any particular conclusion. It does seem reasonable, however, to ask whether improvement of competitive advantage is, in itself, an economically desirable objective, and the conditions under which such improvement is achieved is consistent with sustainable economic growth.

Policy makers of international corporations naturally place high priority on competitiveness in terms of corporate profitability and market share; for national policy makers, however, relationships between industrial competitiveness and a range of macroeconomic conditions are important. These include the interrelationships between competitiveness and economic growth, technological change, the level of employment and the balance of payments. The Traill and Da Silva paper is purposively restricted to definition and measurement, but the analysis must have revealed some aspects of the interrelationships, at least in the form of testable hypotheses to guide future research. Perhaps some comments on such relationships merit further discussions.

The indicators of market share and comparative advantage used in the empirical section of the paper reflect the complex nature of competitiveness. Foreign direct investment and resulting foreign production of domestically based industry, and the net effect of product importation, are each sequentially added to the calculations which measure trends in the relative performances of food, drink and tobacco companies in the international trade of four countries selected from the European Community. The results prompt questions about the structure and historical characteristics of these industries, again eliciting useful hypotheses. For instance, why is foreign production so important to the industrial competitiveness of France, but less so in the case of Germany? Why has the competitive edge of German exporting firms been somewhat eroded by foreign competition? Why are trends for the UK inconclusive and foreign production relatively much more significant for the British export trade than in the other cases?

The Dunning paradigm provides explicit contributory factors; international production provides firms with ownership, locational and internalization advantages. Perhaps, however, two of Professor Westgren's insights are germane: that firms or corporations embody qualitatively different resources (a complex mix of physical, financial, human and organization capital resources) which earn quasi-rents, and that the characteristics of any particular resource may well be uniquely culture-bound. Such observations suggest the inclusion of the unique resource and the firms' economic history in an analysis of corporate competitiveness. National sectors have also developed in the context of a culturally bound economic history and possess unique resource sets. Such insights can, therefore, be extended to sectoral competitiveness in international trade.

The Westgren approach is less orthodox. The level of analysis shifts from the perspective of international trade to a particular aspect of behavioural theory of the firm. From the perspective of corporate management theory, profitability and market share are overriding concerns. These indicators of competitiveness are well understood by policy makers and managers of industrial corporations and, in aggregate, reflect sectoral performance. Thus the approach is essentially pragmatic, taking cognizance of decision-making and coordinating systems which give particular business organizations their competitive edge; the resource cannot be imitated and it may well be culture-embedded.

In Westgren's experience, the resource-based approach promotes multidisciplinary interaction, which raises a number of interesting side-issues to the main hypothesis. Why, for instance, have economists been less active in seeking the wisdom of management scholars than is the case in reverse? Is it because the economics profession, especially in our own branch, has traditionally been more closely associated with government, and therefore the *establishment*, than with private enterprise? The resource-based perspective of industrial organization also brings to light the likelihood of intense corporate protectionism which tends to inhibit interprofessional dialogue. How can dialogue proceed at anything more than a superficial level if scientists and managers from the public sector and the cautiously protective private sector are juxtaposed?

The resource-based approach raises a totally different perspective for public policy towards industrial enterprise. Westgren notes that, within the industrial complex, optimization is effected at many different levels, which helps to explain the heterogeneity of successfully competitive firms in any particular sector. Clearly, common sector policy may well suit no firm in particular and, therefore, cause the dissipation of quasi-rents. The conclusion is to seek a differentiated policy sector-specific or, in the final analysis, firm-specific, line in order not to inhibit the competitive advantage of any unique resource-using firm relative to its competitors. Such an approach is tantamount to picking the winners, in which, as mentioned in the earlier paper, neither researchers nor politicians are particularly adept. The approach appears helpful in explaining the idiosyncratic behaviour of individual firms, but is too close to the level of the individual firm to engender democratically acceptable public policy. Perhaps Professor Westgren would comment on public policy options that the resource perspective of industrial organization might generate.

There is a final question which the authors may wish to consider collectively. Competitiveness in international trade is closely associated with growth and development, so elusive to many of the poorer countries. The two papers have been presented in the context of the more developed economies. To what extent can these methodologies provide policy guidance for poorer countries involved in world trade, many of whom act as host to the foreign production of international corporations whose ownership lies within the boundaries of the rich and more developed?

Jean-Marc Boussard (France)[4]

The Traill/Da Silva and Westgren papers are perfectly complementary. The former, though perhaps somewhat confused as a consequence of the severe limits which have to be placed on contributions, supplies the empirical content which may be lacking in the latter, though Westgren has a more marked theoretical approach.

The general impression of the casual reader, nevertheless, is that of an unavailing achievement. Although Westgren is notably comprehensive in his review of the concept of competitiveness, I still do not clearly understand what purpose, if any, this new vocabulary is meant to serve. Let me list but a few assumptions which occurred to me in this respect.

(1) It is useful to fool ignorant bureaucrats, to obtain research grants from them (given the present crisis, this is not to be disdained).
(2) It is efficient in confusing students, and making professors look at an advantage (though neither category really needs such assistance!).
(3) It helps to understand why a particular firm has been successful. Nevertheless, this is often a matter of pure chance. Remember the famous remark of Keynes in the *Treatise on Probability*: 'Millionaires are lucky fools, who, against all probabilities, were successful in striving against less lucky ones.' That, almost by definition, is the reason for increased market shares of any firm or group of firms and provides no explanatory power. The problem of explaining competitiveness remains.
(4) It is a dynamic version of comparative advantage. Here, however, it must be said that comparative advantage itself is far from being something which is completely transparent. Despite contrary claims by many of our colleagues, I have never found it convincingly measured.

Competitiveness is an elusive concept, though its ubiquity requires that it is a term which should be handled with care. This is not to say that the term

[4]INRA, Paris.

should be abandoned, though the fact that it is ambiguous makes the need for clarification apparent. This is clear in the case of the paper by Traill and Da Silva. Among the issues which need clarification is the 'nationality of production' problem. I would like to elaborate a little on this important issue. In the naive versions of the general equilibrium model at world level, the nationality of a commodity is a dangerous abstraction. States interfere with production only by imposing trade distortions, which should be removed. The necessity of abolishing states appears to follow immediately. This is so at variance with common sense that it is correction of the model which is obviously necessary.

However, in the framework of pure production theory, this is hardly possible. One needs to understand the role of 'the firm' (an entity obviously quite different from 'the producer' of elementary economics, if only because most firms produce more than one product at a time), of 'the nation' (which is also something different from 'the state', because its role extends far beyond managing externalities and imposing custom duties) and of 'distances' (because it is really too easy, and certainly misleading, to treat the same commodities in two locations as two different commodities). This is the more difficult as 'firms' and 'nations' are sometimes complementary (as when a minister wants to increase the competitiveness of a sector) and sometimes rival entities (large firms are naturally led to attribute sovereign rights to themselves). Furthermore, location economics has made relatively little progress since Von Thunen. Finding a new model of economic activity similar, in its principles, to the general equilibrium model, but paying due recognition to the three difficulties just mentioned, is certainly among the challenges faced by economics as a science in the future.

To some extent, I think the success of the word 'competitiveness' is ascribable to the view, or at least the vague feeling, that this challenge has been met. Unfortunately, that is not the case.

Secondo Tarditi (Italy)[5]

Choosing among the many interesting topics presented to us I will focus first on the different meaning of 'competitiveness' used by the two authors. The rather pessimistic judgement given by Kym Anderson in his excellent paper on the outcomes of the Uruguay Round of GATT negotiations will then be questioned by mentioning the increased opportunity for reforms in agricultural policies generated by domestic pressures.

As the theme of our conference is centred on a key word, it is worth discussing the issue at the outset. According to Anderson, competitiveness of a sector depends on the demand and supply conditions affecting its output compared with that of other sectors, which can be altered by economic growth and market intervention by governments. He examines first how economic growth changes agricultural demand and supply conditions and how comparative advantage based on national resource endowments may shape international trade. Then he mentions the impact of past trends in policy on competitiveness which

[5]University of Siena.

have tended to be distorted against farmers in poorer and in agricultural exporting countries and in favour of farmers in richer and in food-importing countries. Such less desirable consequences of past trends in policy as depressed international food prices and increased global loss in real income are clearly ascribed to the distorting policies, not to competitiveness in itself. The distinction is important.

The meaning of competitiveness emerging from Julio Hernández-Estrada's paper is quite different. He asserts that thinking and speaking in terms of competitiveness could result in the wasteful spending of government money supposedly to enhance competitiveness, it could lead to protectionism and trade wars and could result in bad public policies on a spectrum of important issues.

The divergent interpretation of our key word denotes a potential ambivalence in its meaning that it is worth drawing attention to at the beginning of the conference. The obsession and rhetoric on international competitiveness used in order to avoid structural adjustment or to defend sectoral interests can surely be dangerous to a country as a whole. Increasing an individual share of the export market is often interpreted as increasing a country's competitiveness, without further analysis of whether it is due to export subsidies and entails economic costs. For example, during the GATT negotiations common agricultural policy (CAP) support for agriculture was sometimes presented to farmers and to the general public as a means of increasing European 'competitiveness' against the United States and the Cairns Group.

However, such an interpretation cannot be accepted as the only meaning of 'competitiveness', since the word is more frequently understood to imply a better domestic and international allocation of resources, with consequent improvement in domestic and global productivity. In order to be more specific, particularly when we are thinking in terms of sectoral policy choices, it is perhaps useful to distinguish between 'non-distorted' and 'distorted' competitiveness according to the likely impact on social welfare, assuming that the ultimate goal of the policy maker is maximizing or at least increasing domestic and possibly global welfare. The same distinction can also be made using more commonly used terms such as 'fair' and 'unfair'. If social welfare is decreased, the competitiveness generated by public intervention has to be unfair at least to some social groups.

Non-distorted competitiveness may be increased by policy makers in a number of ways, for example by fostering production efficiency through diffusion of new cost-saving technologies, by improving information on both output and factor markets, or by favouring structural adjustment in farm sizes, food processing and distribution plants. In general, most of the policy measures exempted from reduction commitments included in Annex 2 of the GATT Agreement, if correctly implemented, could in my view provide fair competitive advantages to firms and to industries both in the domestic market and at international level.

On the other hand, in order to boost competitiveness of domestic firms and industries on the world markets, policy makers may adopt measures distorting international trade, for example by granting an input or production subsidy to domestic producers and artificially increasing their profits. So far as agricultural policies are concerned, the economic costs in some OECD countries have been estimated to reach up to 40–50 per cent of the benefits enjoyed by producers in terms of income transfers.

Quantitative restrictions on production (such as quotas and land set-aside) may have a positive welfare effect on partners in world trade since such restrictions usually decrease subsidized exports, thus reducing trade distortions. However, it still remains the case that domestic consumers and taxpayers can suffer a significant welfare loss in terms of budget transfers and increased transaction costs. Such costs are likely to become larger in the long run, because of reduced structural adjustment.

Kym Anderson's analysis is mainly directed at the international level and future trade developments are projected largely on the basis of the resource endowment ratios of various countries. Although at international level the GATT agreement has been reached in order to increase global economic welfare, he does not mention the possibility that, as a consequence of the partial liberalization brought about through external pressures, domestic social groups still heavily damaged by some agricultural policy measures could push for further liberalization before the end of the century in order to increase national social welfare. This could become important. A very positive aspect of fully including agriculture in the GATT agreement, and of implementing the changes involved, is that it could trigger a much greater awareness of the true budgetary and economic consequences of commonly applied agricultural policy measures. Although a huge effort has been made by international organizations and agricultural policy analysts (including Kym Anderson) in quantifying and publicizing the effects on society, the opinions of farmers and the general public are surprisingly at variance with the true facts. For example, the adoption of the CAP in the United Kingdom increased agricultural support and changed the earlier deficiency payments scheme to market price support (shifting the burden from taxpayers to consumers). A recent survey on CAP of a representative sample of EU12 citizens showed that 63 per cent of British farmers interviewed believe that consumers have benefited from CAP, and the same opinion is shared by 28 per cent of consumers. In Ireland, the percentages are respectively 58 and 35. These opinions are quite far away from results of OECD research work where the transfers generated by the CAP are costing over 1300 ECU a year per household, and benefiting each full-time farmer equivalent by 13 000 ECU a year, which amounts to over 800 ECU per hectare. No less than 71 per cent of the EU12 population and 80 per cent of farmers believed that the Union should defend its position as the second world agricultural exporter. However, the majority (62 per cent) also believe that they should not pay for the CAP as consumers and as taxpayers. The inconsistency in view is obvious.

To summarise, my expectation is that the increased transparency in information due to the GATT outcome will be important in increasing the awareness of electorates about the main facts relating to agricultural policies, resulting in policy makers becoming convinced of the need to use policies which inflict less damage on society as a whole. It is through increased awareness that I expect to see substantially changed production and trade perspectives in the coming years.

Hassan Serghini (Morocco)[6]

I also intend, very briefly, to discuss some general ideas developed in the Anderson and Hernández-Estrada papers, though my perspective will be somewhat different. There appears to be a belief that the Uruguay Round agreement has increased trade openness in general and, at the same time, that developing countries, largely through being granted a reform package which is less extensive and spread over an extended adjustment period, have been granted special differential treatment. I wish to challenge this belief by pointing out that the potential effects can be product-specific, that they depend on the trade flow involved (obviously I am thinking of Moroccan exports of fruit and vegetables to the European Union) and that the impact can depend on the precise nature of the policy changes which are allowable under the new rules governing border protection and access which are applied in importing countries.

Though the final rules are still in the process of being implemented, complex changes appear likely in the manner in which the EU will deal with imports of fruit and vegetables. These involve a move from a seasonal 'reference price' system to one based on 'entry prices', and an alteration in the rules governing the allowable import tariff which can be imposed. Under the proposed regulations a small divergence of up to 7 per cent in the price at which imports are offered in comparison with the entry price is to be made up by a tariff approximately matching the gap. However, if the divergence is greater than 7 per cent, an automatic high flat rate tariff is to be imposed. In my judgement, based on a study of tomatoes as a representative product, the combination of an altered seasonal schedule of entry prices, in comparison with the previous reference prices, will be sufficient to exclude Morocco from the European market. A similar situation will prevail for other Moroccan exports of fruit and vegetables.

The proposed system appears to comply with the new GATT rules, but it is in complete contradiction of the spirit of the Uruguay Round. When details of implementation are studied it appears that it may well not be the developing countries which are favoured and that preferential treatment will still be biased towards those countries which are already enjoying higher standards of living .

Chairpersons: David Harvey, Leo Da Rocha Ferreira, William Amponsah.
Rapporteurs: Lydia Kimenye, Graham Dalton, Mayada Baydas, Beatrice Knerr.
Floor discussion: Kay Muir-Leresche, M. Hamatly, S. Ehui, S. McCorriston (2), L. Brink, L.D. Smith, P.J. Lund, D. Henderson, K.J. Thompson, Ewa Rabinowicz, P. Hakinen, Monika Hartmann.

[6]Ministry of Agriculture, Morocco.